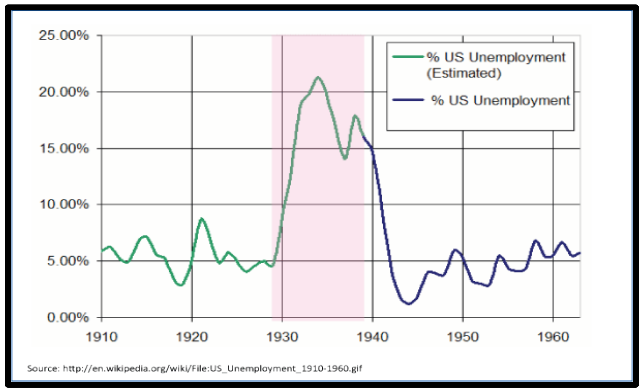
The Worldwide Depression

Enduring Understanding: The influence of both world wars and the worldwide Great Depression are still evident. To understand the effects these events had on the modern world, you will explain the causes and effects of the worldwide depression that took place in the 1930s, including the effects of the economic crash of 1929.



The depression of the 1930s, most commonly referred to as the **<u>Great Depression</u>**, was not limited to the United States; it was a worldwide situation. Serious economic problems developed in Europe due to severe damages caused by World War I and the heavy monetary penalties (reparations) imposed on Germany by the Treaty of Versailles. Many European nations were faced with the expense of having to rebuild from the war, and although the Allied nations were using the reparations from Germany to help rebuild, the expenses due to the extreme damages of the war were high. Nations also faced the transition of soldiers returning from the war looking for work or replacing workers who held their jobs during wartime. Wartime spending had stretched many nations financially but had also kept employment high due to jobs created to maintain their militaries. Because of these factors, **<u>unemployment</u>** (joblessness) rose in many nations after the war.

Section Review:

1. **Where did the Great Depression occur?**

2. **How did World War I lead to the Great Depression?**

Great Depression in Europe

Germany faced the greatest economic challenges due to the high reparations and the loss of some of its prime industrial land and resources imposed by the Treaty of Versailles. While this seemed to support British and French goals to prohibit and prevent Germany from causing another worldwide war, German economic weakness actually hurt trade and production in Western Europe.
In 1923, France further hurt Germany economically by seizing the **<u>Ruhr Valley</u>**, Germany's main industrial region. Germany's response was to begin printing money that had no economic support, thereby causing **<u>hyperinflation</u>** and the devaluing of money across the continent.

Due to all of these financial difficulties and the necessity to rebuild, European nations were not buying and investing in foreign goods, including goods from the United States. This was a negative impact for all involved.

Section Review:

3. **Why was the German economy damaged after World War I?**

4. **How did Germany try to fix their economic problems?**

Great Depression in the United States

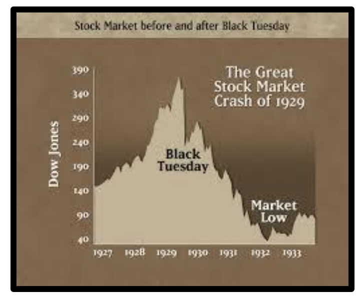
Despite economic problems in Europe, the economy of the United States experienced an artificial boom in the 1920s. It appeared that the U.S. economy was thriving. However, this could not last. American companies continued producing goods at the high volume they had achieved during wartime expecting beneficial trade to continue. American farmers, who had fed the Allied armies and the people of Europe throughout the war, no longer had the European market and were unable to make a profit throughout the 1920s. The wages of industrial workers remained low. For a while, many Americans were able to buy goods on the **<u>installment plan</u>** (buying goods on credit); but, by the end of the decade, American consumers were reaching the extent of their buying power.

The 1920s seemed like a boom time because many Americans increasingly bought more **stock** (shared ownership) in United States companies, hoping the good times would continue. These stocks were often bought **on margin** (buying stocks on credit) and the investments were risky because they relied on business growth. This increase in buying stock on margin led to stock values rising quickly, making it appear as though money could be easily and quickly made. This enticed more investors into the risky stock market. The sales of goods slowed because European consumers could not buy and American consumers slowed their purchases. Companies began experiencing a surplus of goods with an ever-shrinking customer market. As this surplus rapidly increased, investors began to sell their stock causing stock prices to quickly decline in the late 1920s.

Section Review:

5. **How could Americans buy things they really could not afford in the 1920s?**
6. **Why did so many Americans invest in the stock market during the 1920s?**
7. **What does buying "on margin" mean?**

Creditors began demanding payment for stocks bought on margin but investors had no money to make repayments. Many investors quickly tried to sell all their stocks and withdrew their money from the banks to meet their financial obligations. All of these activities resulted in a stock market crash.



On October 29, 1929, known as **Black Tuesday**, the United States' stock market experienced the biggest loss in financial worth. As a result of losses in the stock market and declining consumer demand, companies laid off workers and unemployment rose. The demand for goods continued to decrease, increasing the problem of surplus goods. The cycle escalated as layoffs increased, sales decreased, and more people went to the banks to withdraw all of their money. These **"runs on the banks"** affected people nationwide. Even depositors who had not invested in the stock market had their savings wiped out in the panic to retrieve funds. The banks had loaned much of their capital and neither the deposits nor the loans were protected by bank insurance at the time.

Bank Run

At the same time people were losing their savings, banks demanded full payment of their loans. This is known as "**calling the loan**". Banks did this in order to reinstate their capital and prevent closure. Citizens with mortgages (home loans) or other loans began losing their homes or other possessions. Unemployment and homelessness continued to increase, banks and businesses closed, and the economic depression in the United States made the worldwide depression worse.

Section Review:

8. **What happened on Tuesday, October 29, 1929, and what is that day now known as?**
9. **What caused the stock market to crash?**
10. **Why did so many banks in the US have to close?**
11. **Explain "runs on the banks".**
12. **What does "calling the loan" mean?**

How did countries respond to the Great Depression?

After World War I the United States began loaning money to European nations to help rebuild. Germany especially relied on United States loans due to high reparations imposed by the Treaty of Versailles. As the United States economy worsened in the late 1920s, they could no longer loan money to Europe. Without these loans, the economies of European nations began to suffer. Germany's economy suffered the most.

European nations, as well as the United States, depended on worldwide trade due to industrialization. Due to economic problems in the United States and in Europe, investments in markets in Africa, Asia, and South America decreased. As these investments decreased, the economies in nations of other continents began to suffer and by the early 1930s the worldwide depression had begun.

Nations responded differently to the economic struggle. The reaction of most nations was to turn inward to a policy of **isolationism** by focusing on solving their own nation's economic problems. In democratic nations, the governments worked to improve economic conditions through the passage of laws. Some nations turned to totalitarian (unlimited) governments. In nations that turned to totalitarianism, leaders used their power to begin imperializing to gain raw materials and markets to help stimulate their economies. This eventually led to World War II.

American Response

The United States responded by overwhelmingly electing Franklin D. Roosevelt to replace Herbert Hoover in the 1932 presidential election.


Franklin D. Roosevelt

Roosevelt proposed, and Congress approved, programs that together became known as the **New Deal**.
These policies primarily focused on relief and reform in the form of public works programs to increase employment as well as regulations (rules) on the stock market, banks, and business and agricultural production. The New Deal greatly enhanced the national government's role in the economy and in the lives of individuals. For the first time in American history, direct relief as provided by the government was a significant component of everyday life.

Section Review:

13. **How did some European nations get money to rebuild after WWI?**

14. **Why did the US stop lending money to European nations?**

15. **What is isolationism?**

16. **What did FDR do to fix the US economy?**

17. **What is the New Deal?**

British Response
Britain, on the other hand, enacted **protectionist policies** designed to protect the domestic industries and services from foreign competition, such as dropping the gold standard and increased government ownership and/or management of key industries. Britain also raised taxes to loan money to new businesses in the hope of increasing employment.

Section Review:

18. **How did Great Britain respond to the Great Depression?**

German Response
The depression provided the opportunity for radical groups to get involved in government. Germany saw the rise of the **Nazi Party**.
Adolf Hitler was able to take advantage of economic anxiety, political discontent (dissatisfaction), and the parliamentary structure of the German government to become the German Chancellor in 1933. He took advantage of the bad economic conditions and people's anxiety and fears to eliminate political opponents, consolidate political power, and ultimately establish **totalitarian** (total) control over the government. The German hatred of the Treaty of Versailles coupled with Hitler's repeated renunciation (defiance) of the Treaty greatly increased his popularity and advanced his political career.

Section Review:

19. **Who became the new leader of Germany in 1933 and what was his political party?**

20. **How was Hitler able to gain so much power?**

21. **What is totalitarian control?**

Elsewhere in the world

Similarly, the economic depression allowed **Benito Mussolini** to gain support in Italy and allowed for a military takeover of the government in **Japan.** The totalitarian governments of Germany, Italy, and Japan would use the economic depression to justify the takeover of other nations in order to help improve their own economies.

Benito Mussolini

Section Review:

22. **Who took control of Italy during this time?**

23. **What group took over the government of Japan?**

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